

SAMPLE CASH CITY

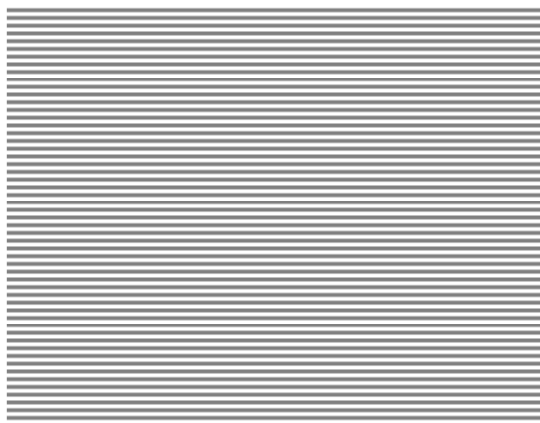
**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2004

Office of
**AUDITOR
OF STATE**
State Capitol Building • Des Moines, Iowa



**David A. Vaudt, CPA
Auditor of State**





OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA
Auditor of State

Fellow CPAs:

This sample report is presented by the Office of Auditor of State as required by Chapter 11 of the Code of Iowa. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client.

Audits of governmental subdivisions should be performed in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and, if applicable, the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Chapter 11.6 of the Code of Iowa requires a review of internal control and testing of transactions for compliance.

This sample report has been prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Reports for audits of cities with financial statements prepared in accordance with U.S. generally accepted accounting principles should conform to guidelines provided in Governmental Accounting and Financial Reporting Standards published by the Governmental Accounting Standards Board.

The format displays the basic financial statements, required and other supplementary information and the Schedule of Findings and Questioned Costs which are necessary to meet the requirements of this office. The detail presented in the financial statements and supplementary information is the minimum breakdown that will be acceptable subject, of course, to materiality considerations. If the auditor and the local government feel more detail is necessary to provide a fair presentation, this of course will be welcome. A sample such as this cannot present all situations which you may encounter, so the auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

We have included as attachments to this letter some information related to municipal utility audits. We have also included illustrations of note disclosure for a city's participation in the Municipal Fire and Police Retirement System of Iowa (note X) and Iowa Community Assurance Pool (ICAP), a local government risk pool (note Y).

Entities with \$500,000 or more of federal expenditures are required to receive a Single Audit in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Any questions concerning Single Audit requirements should be directed to the City's cognizant or oversight agency.

In accordance with OMB Circular A-133, one copy of the reporting package and Data Collection Form shall be submitted within 30 days after issuance of the audit report to a central clearinghouse. The Data Collection Form is available on the Federal Audit Clearinghouse (FAC) website at <http://harvester.census.gov/sac> or by calling 1-800-253-0696 (Form number SF-SAC). Auditees are encouraged to use the on-line Internet submission option available on the FAC website. Submission of the on-line Internet Form SF-SAC will require the user to submit a hard copy of the final form with the auditee and auditor signatures. Additional copies of the reporting package or notifications of audit should be submitted to the central clearinghouse or to grantor pass-through entities in accordance with the filing requirements of the Circular.

The Office of Management and Budget has designated the United States Department of Commerce, Bureau of the Census as the Single Audit Clearinghouse. Reporting packages should be submitted to:

Federal Audit Clearinghouse
Bureau of the Census
P. O. Box 5000
Jeffersonville, IN 47199-5000

The findings on compliance, items IV-A-04 through IV-H-04, detail those items which are to be included regardless of whether there are any instances of non-compliance or not. Any instances of non-compliance in other areas should also be reported.

We have also included a page for listing the staff actually performing the audit. Although we have found this page to be helpful, you are not required to use it.

Reports, including the management letters(s) if issued separately, are to be filed with this office within nine months following the end of the fiscal year subject to audit. However, reports should be filed with this office upon release to the City. The per diem audit billing (including fee, expenses and hours) should be submitted with the reports filed with our office.

Beginning with audit reports issued for years ending June 30, 2004, we will be providing internet access to reports issued by CPA firms, to accompany our own reports which are already accessible through the internet. To allow this, you should submit an electric copy of each FY2004 audit report, in PDF format, to our office in addition to the two paper copies submitted. The PDF files should be e-mailed to submitreports@auditor.state.ia.us.

As required by Chapter 11 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the local government for the notification. We have developed a standard news release to be used for this purpose. The news release may be completed by the local government and a copy should be sent to this office with two copies of the audit report sent by the CPA firm. We will make a copy of the audit report and news release available to the news media in this office.

In accordance with Chapter 11 of the Code of Iowa, this office is to be notified immediately regarding any suspected embezzlement or theft.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to local governments. Together, we are able to provide a significant benefit to all taxpayers in the state.

DAVID A. VAUDT, CPA
Auditor of State

Additional Footnotes

The Municipal Fire and Police Retirement System note and the Iowa Communities Assurance Pool information in the Risk note have been updated. The notes are as follows:

(X) Pension and Retirement Systems

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104th St., Des Moines, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2004, 2003 and 2002 were \$_____, \$_____ and \$_____, respectively, which (met) exceeded the required minimum contribution for each year.

(Y) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 490 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

Additional Footnotes

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2004 were \$_____.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with _____. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Information Related to Municipal Utility Audits

Municipal Utility audit report format should include the following:

1. Officials
2. Independent Auditor's Report
3. Management's Discussion and Analysis
4. Financial Statements (including a comparison of budget to actual)
5. Independent Auditor's Report on Compliance and Internal Control over Financial Reporting
6. Schedule of Findings:

Findings Related to the Financial Statements

Other Findings Related to Statutory Reporting:

- a. Official Depositories
- b. Certified Budget
- c. Questionable Disbursements
- d. Travel Expense
- e. Business Transactions
- f. Bond Coverage
- g. Board Minutes
- h. Revenue Bonds/Notes
- i. Deposits and Investments

Findings (a) through (i) are to be included regardless of whether there are any instances of non-compliance or not.

Municipal Utilities may be component units of a City which may affect the Independent Auditor's Report and the footnote disclosure of the reporting entity.

Municipal Utility audits must meet the reporting and filing requirements prescribed in Chapter 11 of the Code of Iowa and must be performed in accordance with the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Sample Cash City

Outline of Major Changes

- A. Added Cash Basis Net Assets to government-wide Statement of Activities and Net Assets.
- B. Added Cash Basis Fund Balances to the Fund Financial Statements.
- C. Added a Reconciliation Schedule for changes between government-wide Statement of Activities and Net Assets and the Fund Financials for both governmental and business type activities.
- D. Amended the bond and note debt service requirements to report in increments of 5 years.
- E. Amended IPERS note to include contribution rates for previous two years in compliance with amended FASB Statement 132.
- F. An electronic copy of the audit report, in PDF format, is to be submitted in addition to the required paper copies.

Additional Notes

- 1. If the City has deposits in credit unions at June 30, 2004, Note 2 should be modified to indicate whether the deposits were covered by federal depository insurance, collateralized with securities or letters of credit held by the City or the City's agent in the City's name or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.
 - 2. Also attached is a sample Corrective Action Plan for Federal Audit Findings (See **Sample A**) and a sample Summary Schedule of Prior Federal Audit Findings (See **Sample B**). These are provided for illustrative purposes only and are not required to be bound in the regular audit or filed with our office.
 - 3. The attached sample Corrective Action Plan refers the user to the City's response to the auditor's comment for the detailed corrective action planned. If the City's response to the auditor's comment does not include the details of its planned corrective action, this information should be included in the Corrective Action Plan itself.
-

Additional Notes (continued)**Sample A**

Sample Entity

Corrective Action Plan for Federal Audit Findings

Year Ended June 30, 2004

Comment Number	Comment Title	Corrective Action Plan	Contact Person, Title, Phone Number	Anticipated Date of Completion
III-A-04	Unsupported Expenditures	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Tom Claim, Sample Entity Administrator, (515) YYY-XXXX	Documentation to support expenditures will be maintained effective immediately. The questioned costs were returned to the Iowa Department of Economic Development on October 1, 2004.
III-B-04	Segregation of Duties over Federal Revenues	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Julie Ledger, Sample Entity Treasurer, (515) YYY-XXXX	October 30, 2004
III-C-04	Financial Reporting	As reported in our response to the auditor's comment, we have implemented an independent review process which requires review by the Sample Entity Program Director, effective immediately. In addition, beginning with the December, 2004 quarterly report, we will submit federal financial reports within the required time frame.	Joe Smith, Program Director, (515) YYY-XXXX	Review procedures have been implemented. Timely report filing will begin with the quarter ending December, 2004.

Additional Notes (continued)**Sample B**

Sample Entity

Summary Schedule of Prior Federal Audit Findings

Year ended June 30, 2004

Comment Reference	Comment Title	Status	If not corrected, provide planned corrective action or other explanation
C-III-01 B-III-02 B-III-03	Minority Business Enterprise/ Women Business Enterprise (MBE/WBE)	No longer valid; does not warrant further action.	Over two years have passed since the reporting of this audit finding. The Grantor Agency has not followed up on this finding nor has a management decision been issued on their part.
A-III-02 A-III-03	Segregation of Duties over Federal Revenues	Not corrected.	Plan to segregate duties for custody, recordkeeping and reconciling among Sample Entity staff.
C-III-02 C-III-03	Fixed Assets	Corrective action taken.	
D-III-03	Financial Reporting	Partially corrected.	Review procedures have been implemented. Timely report filing will begin with the quarter ending December, 2004.



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

Contact:

FOR RELEASE _____

Auditor of State David A. Vaudt today released an audit report on the Sample Cash City, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$_____ for the year ended June 30, 2004, a(n) ____ percent increase (decrease) from 2003. The receipts included \$_____ in property tax, \$_____ from tax increment financing collections, \$_____ from charges for service, \$_____ from operating grants, contributions and restricted interest, \$_____ from capital grants, contributions and restricted interest, \$_____ from local option sales tax, \$_____ from unrestricted investment earnings and \$_____ from other general receipts.

Disbursements for the year totaled \$_____, a(n) ____ percent increase (decrease) from the prior year, and included \$_____ for ____ a ____, \$_____ for ____ b ____, and \$_____ for ____ c _____. (a,b,c – functions with three highest disbursement totals) Also, disbursements for business type activities totaled \$_____.

The significant increase (decrease in receipts and disbursements is due primarily to_____.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

#

SAMPLE CASH CITY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-13
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 16-17
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 18-19
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C 21
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D 22
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E 23
Notes to Financial Statements	24-30
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	32-33
Notes to Required Supplementary Information – Budgetary Reporting	34
Other Supplementary Information:	<u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 36-37
Schedule of Indebtedness	2 38-39
Bond and Note Maturities	3 40-41
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4 42
Schedule of Expenditures of Federal Awards	5 43
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	45-46
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance	49-50
Schedule of Findings and Questioned Costs	51-58
Staff	59

Sample Cash City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Rosemary Jones	Mayor	Jan 2006
Dan Parks	Mayor Pro tem	Jan 2006
Betty Dager	Council Member	Jan 2004
Rose Arnoldson	Council Member	Jan 2004
Sarah Greene	Council Member	Jan 2004
Tom Taylor	Council Member	Jan 2004
Kevin Linden	Council Member	Jan 2006
Alan Notchwood	Council Member	Jan 2006
(After January 2004)		
Rosemary Jones	Mayor	Jan 2006
Dan Parks	Mayor Pro tem	Jan 2006
Kevin Linden	Council Member	Jan 2006
Alan Notchwood	Council Member	Jan 2006
Betty Dager	Council Member	Jan 2008
Rose Arnoldson	Council Member	Jan 2008
Sarah Greene	Council Member	Jan 2008
Tom Taylor	Council Member	Jan 2008
Alan Mead	Finance Director	Indefinite
Marilyn Martin	Clerk/Treasurer	Indefinite
Carl Pearce	Attorney	Indefinite

Sample Cash City



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA

Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Sample Cash City, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the Sample Cash City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Sample Cash City as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 14, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated September 20, 2004 on our consideration of the Sample Cash City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 32 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Sample Cash City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 20, 2004

DAVID A. VAUDT, CPA
Auditor of State

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sample Cash City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 34.2%, or approximately \$705,000, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$48,000 and bond proceeds increased \$515,000.
- Disbursements increased 5.2%, or approximately \$90,000, in fiscal 2004 from fiscal 2003. Public safety, debt service and capital projects disbursements increased approximately \$16,000, \$34,000 and \$17,000, respectively.
- The City's total cash basis net assets increased 75%, or approximately \$1,712,000, from June 30 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$956,000 and the assets of the business type activities increased by approximately \$756,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

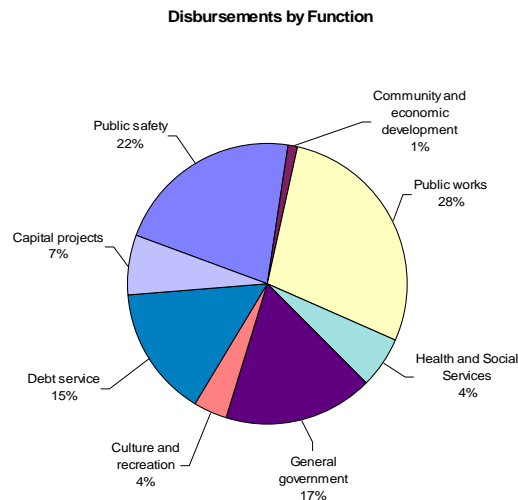
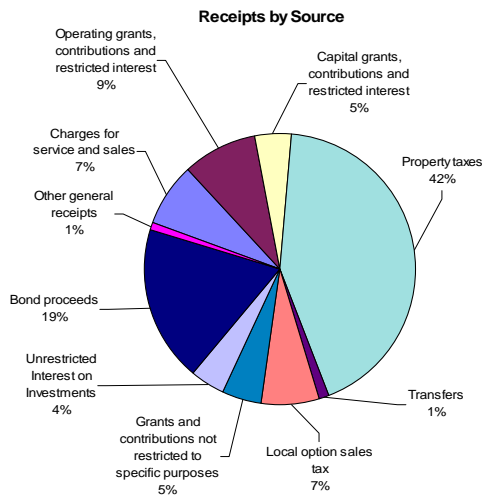
The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$1.689 million to \$2.645 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2004	2003
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 206	198
Operating grants, contributions and restricted interest	247	222
Capital grants, contributions and restricted interest	125	40
General receipts:		
Property tax	1,182	1,134
Local option sales tax	190	188
Grants and contributions not restricted to specific purposes	133	128
Unrestricted investment earnings	112	94
Bond proceeds	515	-
Other general receipts	25	31
Transfers, net	27	22
Total receipts and transfers	2,762	2,057
Disbursements:		
Public safety	396	380
Public works	501	501
Health and social services	104	97
Culture and recreation	74	75
Community and economic development	16	12
General government	309	296
Debt service	281	247
Capital projects	125	108
Total disbursements	1,806	1,716
Increase in cash basis net assets	956	341
Cash basis net assets beginning of year	1,689	1,348
Cash basis net assets end of year	\$ 2,645	1,689



The City's total receipts for governmental activities increased by 34.2%, or \$705,000. The total cost of all programs and services increased by approximately \$90,000, or 5.2%, with no new programs added this year. The significant increase in receipts was primarily the result of proceeds received from the issuance of urban renewal tax increment financing revenue bonds.

The City increased property tax rates for 2004 by an average of 4 percent. This increase, the first in three years, raised the City's property tax receipts by approximately \$48,000 in 2004. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by an additional \$50,000 next year.

The cost of all governmental activities this year was \$1.806 million compared to \$1.716 million last year. However, as shown in the Statement of Activities and Net Assets on pages 16-17, the amount taxpayers ultimately financed for these activities was only \$1.229 million because some of the cost was paid by those directly benefited from the programs (\$206,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$372,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2004 from approximately \$460,000 to approximately \$577,000, principally due to receiving grant proceeds to complete the City Hall renovation project. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,229,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2004	2003
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 658	640
Sewer	473	458
Capital grants, contributions and restricted interest	535	478
General receipts:		
Unrestricted interest on investments	7	7
Bond proceeds	750	-
Other general receipts	46	49
Total receipts	2,469	1,632
Disbursements and transfers:		
Water	591	588
Sewer	1,095	955
Transfers	27	22
Total disbursements and transfers	1,713	1,565
Increase (decrease) in cash balance	756	67
Cash basis net assets beginning of year	603	536
Cash basis net assets end of year	\$ 1,359	603

Total business type activities receipts for the fiscal year were \$2.469 million compared to \$1.632 million last year. This significant increase was due primarily to the receipt of \$750,000 in sewer construction general obligation bond proceeds. The cash balance increased by approximately \$756,000 from the prior year because most of the bond proceeds received will not be spent until next fiscal year for the approved sewer construction project. Total disbursements and transfers for the fiscal year increased by 9.4% to a total of \$1.713 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Sample Cash City completed the year, its governmental funds reported a combined fund balance of \$2,634,039, an increase of more than \$950,000 above last year's total of \$1,679,848. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$239,808 from the prior year to \$1,555,623. Approximately \$95,000 of this increase was due to local option sales tax received for the first time this fiscal year. The City intends to use these receipts to help offset future property tax increases.
- The Road Use Tax Fund cash balance increased by \$122,922 to \$333,330 during the fiscal year. This increase was also attributable to approximately \$95,000 from local option sales tax received this fiscal year. The City intends to use this money to upgrade the condition of all City roads.
- The Urban Renewal Tax Increment Fund was established in the previous fiscal year to account for a major urban renewal project within the City's business district. At the end of the fiscal year, the cash balance was \$636,340, an increase of \$595,029 from the previous year. The increase was the result of proceeds of \$515,000 received from the issuance of

urban renewal tax increment financing revenue bonds. These proceeds will be used for various construction and refurbishing projects within the urban renewal district. The bonds and interest will be redeemed with incremental property tax generated from the increased taxable valuation in the district.

- The Debt Service Fund cash balance increased by \$45,093 to \$56,583 during the fiscal year. This increase was due to an increase in property tax. Bond principal and interest payments increased by \$34,058 in fiscal 2004.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$64,050 to \$190,101, due primarily to an increase in the sale of water and reductions in debt service payments over the prior year.
- The Sewer Fund cash balance increased by \$690,535 to \$1,160,340, due primarily to the receipt of \$750,000 in general obligation bond proceeds.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on March 25, 2004 and resulted in an increase in operating disbursements related to a cost overrun of approximately \$10,000 on various maintenance projects involving City Hall. The second amendment was approved on May 24, 2004 to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$3,695,000 in bonds and other long-term debt, compared to approximately \$2,815,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2004	2003
General obligation bonds	\$ 1,535	885
Special assessment bonds and notes	-	60
Urban renewal tax increment financing revenue bonds	515	-
Revenue notes	1,490	1,680
Anticipatory warrants	155	190
Total	\$ 3,695	2,815

Debt increased as a result of issuing general obligation bonds for a sewer construction project. In addition, the City issued urban renewal tax increment financing revenue bonds for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City.

The City continues to carry a general obligation bond rating of A3 assigned by national rating agencies to the City's debt since 1995. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,690,000 is significantly below its constitutional debt limit of \$12 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Sample Cash City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's employment growth has mirrored its population growth during 1999-2004, averaging per year gains of 2.2 percent. Unemployment in the City now stands at 3.1 percent, versus 3.2 percent a year ago. This compares with the State's unemployment rate of 3.4 percent and the national rate of 3.9 percent.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2004 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and modest increases in energy prices in 2003-2004.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$4.0 million, an increase of 3% over the final 2004 budget. Property tax (benefiting from the 2004 rate increases and increases in assessed valuations) and proceeds from the urban renewal tax increment financing revenue bonds are expected to lead this increase. The City will use these increases in receipts to finance programs we currently offer and to defray a portion of the costs of carrying out a major urban renewal project of the City. Budgeted disbursements are expected to rise by approximately \$600,000. Increased wage and cost-of-living adjustments, increases in street construction and maintenance and the urban renewal project represent the largest increases. The City has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$600,000 by the close of 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marilyn Martin, City Clerk, 101 Main Street, Sample Cash City, Iowa.

Sample Cash City

Basic Financial Statements

Sample Cash City

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 396,016	19,246	13,679	-
Public works	501,580	60,576	222,634	-
Health and social services	103,739	100,511	-	-
Culture and recreation	73,797	5,684	10,670	-
Community and economic development	15,803	-	-	-
General government	309,591	19,470	-	-
Debt service	281,258	-	-	-
Capital projects	125,000	-	-	125,000
Total governmental activities	1,806,784	205,487	246,983	125,000
Business type activities:				
Water	591,235	657,655	-	-
Sewer	1,094,350	473,048	-	535,000
Total business type activities	1,685,585	1,130,703	-	535,000
Total	\$ 3,492,369	1,336,190	246,983	660,000
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Bond proceeds				
Miscellaneous				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year, as restated				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(363,091)	-	(363,091)
(218,370)	-	(218,370)
(3,228)	-	(3,228)
(57,443)	-	(57,443)
(15,803)	-	(15,803)
(290,121)	-	(290,121)
(281,258)	-	(281,258)
-	-	-
(1,229,314)	-	(1,229,314)
-	(66,420)	(66,420)
-	86,302	86,302
-	19,882	19,882
(1,229,314)	19,882	(1,249,196)
840,136	-	840,136
95,832	-	95,832
246,071	-	246,071
190,470	-	190,470
132,976	-	132,976
112,075	6,601	118,676
515,000	750,000	1,265,000
6,888	46,629	53,517
18,540	-	18,540
27,300	(27,300)	-
2,185,288	775,930	2,961,218
955,974	756,048	1,712,022
1,688,795	603,176	2,291,971
\$ 2,644,769	1,359,224	4,003,993
\$ 333,330	-	333,330
636,340	-	636,340
56,583	242,516	299,099
98,703	-	98,703
1,519,813	1,116,708	2,636,521
\$ 2,644,769	1,359,224	4,003,993

Sample Cash City

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2004

		Special Revenue	
		Road Use Tax	Urban Renewal Tax Increment
	General		
Receipts:			
Property tax	\$ 741,677	-	-
Tax increment financing collections	-	-	95,832
Other city tax	41,421	-	-
Licenses and permits	16,254	-	-
Use of money and property	109,642	1,000	-
Intergovernmental	147,941	222,634	-
Charges for service	110,417	-	-
Special assessments	3,216	-	-
Miscellaneous	29,096	-	-
Total receipts	1,199,664	223,634	95,832
Disbursements:			
Operating:			
Public safety	368,900	-	-
Public works	246,509	195,947	-
Health and social services	97,243	-	-
Culture and recreation	70,872	-	-
Community and economic development	-	-	15,803
General government	292,407	-	-
Debt service	-	-	-
Capital projects	25,000	-	-
Total disbursements	1,100,931	195,947	15,803
Excess of receipts over disbursements	98,733	27,687	80,029
Other financing sources (uses):			
Bond proceeds	-	-	515,000
Sale of capital assets	18,540	-	-
Operating transfers in	122,535	95,235	-
Operating transfers out	-	-	-
Total other financing sources (uses)	141,075	95,235	515,000
Net change in cash balances	239,808	122,922	595,029
Cash balances beginning of year	1,315,815	210,408	41,311
Cash balances end of year	\$ 1,555,623	333,330	636,340
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	-	-
Unreserved:			
General fund	1,555,623	-	-
Special revenue funds	-	333,330	636,340
Capital projects fund	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	\$ 1,555,623	333,330	636,340

See notes to financial statements.

Debt Service	Other Nonmajor Governmental Funds	Total
237,754	55,048	1,034,479
-	-	95,832
8,317	192,460	242,198
-	-	16,254
-	2,433	113,075
-	125,000	495,575
-	-	110,417
-	59,576	62,792
-	2,200	31,296
246,071	436,717	2,201,918
-	27,820	396,720
-	59,531	501,987
-	6,496	103,739
-	3,047	73,919
-	-	15,803
-	17,734	310,141
200,978	80,280	281,258
-	100,000	125,000
200,978	294,908	1,808,567
45,093	141,809	393,351
-	-	515,000
-	-	18,540
-	-	217,770
-	(190,470)	(190,470)
-	(190,470)	560,840
45,093	(48,661)	954,191
11,490	100,824	1,679,848
56,583	52,163	2,634,039
56,583	-	56,583
-	-	1,555,623
-	84,703	1,054,373
-	(46,540)	(46,540)
-	14,000	14,000
56,583	52,163	2,634,039

Sample Cash City

Sample Cash City

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds
As of and for the year ended June 30, 2004

Total governmental funds cash balances (page 19) \$ 2,634,039

***Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

10,730

Cash basis net assets of governmental activities (page 17)

\$ 2,644,769

Net change in cash balances (page 19)

\$ 954,191

***Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.

1,783

Change in cash balance of governmental activities (page 17)

\$ 955,974

See notes to financial statements.

Exhibit D

Sample Cash City

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2004

	Enterprise Funds			Internal Service Fund
	Water	Sewer	Total	Employee Health
Operating receipts:				
Use of money and property	\$ 1,660	-	1,660	-
Charges for service	655,995	473,048	1,129,043	78,015
Miscellaneous	-	-	-	3,321
Total operating receipts	657,655	473,048	1,130,703	81,336
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	16,932
Public works	-	-	-	9,792
Culture and recreation	-	-	-	2,932
General government	-	-	-	13,237
Business type activities	347,133	998,423	1,345,556	35,197
Total operating disbursements	347,133	998,423	1,345,556	78,090
Excess (deficiency) of operating receipts over (under) operating disbursements	310,522	(525,375)	(214,853)	3,246
Non-operating receipts (disbursements):				
Intergovernmental	-	535,000	535,000	-
Interest on investments	-	6,601	6,601	-
Miscellaneous	25,653	20,976	46,629	-
General obligation bond proceeds	-	750,000	750,000	-
Debt service	(244,825)	(96,667)	(341,492)	-
Total non-operating receipts (disbursements)	(219,172)	1,215,910	996,738	-
Excess (deficiency) of receipts over (under) disbursements	91,350	690,535	781,885	3,246
Operating transfers out	(27,300)	-	(27,300)	-
Net change in cash balances	64,050	690,535	754,585	3,246
Cash balances beginning of year	126,051	469,805	595,856	16,267
Cash balances end of year	\$ 190,101	1,160,340	1,350,441	19,513
Cash Basis Fund Balances				
Reserved for debt service	\$ -	242,516	242,516	-
Unreserved	190,101	917,824	1,107,925	19,513
Total cash basis fund balances	\$ 190,101	1,160,340	1,350,441	19,513

See notes to financial statements.

Sample Cash City

Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Proprietary Funds
As of and for the year ended June 30, 2004

Total enterprise funds cash balances (page 22) \$ 1,350,441

***Amounts reported for business type activities in the Statement of
Activities and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

8,783

Cash basis net assets of business type activities (page 17) \$ 1,359,224

Net change in cash balances (page 22) \$ 754,585

***Amounts reported for business type activities in the Statement of
Activities and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit to individual funds. The change in net assets of the Internal Service Fund is reported with business type activities.

1,463

Change in cash balance of business type activities (page 17) \$ 756,048

See notes to financial statements.

Sample Cash City

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The Sample Cash City is a political subdivision of the State of Iowa located in Sample County. It was first incorporated in 1902 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the Sample Cash City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Sample County Assessor's Conference Board, City Assessor's Conference Board, Sample County Emergency Management Commission, Sample County Landfill Commission and Sample County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The Sample Cash City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the general government and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments at June 30, 2004 are as follows:

Type	Carrying Amount	Fair Value
U.S. government securities	\$ 200,000	210,000

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$150,000 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

The City had one certificate of deposit that was held in a depository outside the State of Iowa.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 110,000	104,512	-	36,050	190,000	76,550	300,000	217,112
2006	100,000	97,573	-	36,060	200,000	67,075	300,000	200,708
2007	110,000	91,000	20,000	35,700	210,000	56,925	340,000	183,625
2008	110,000	83,712	30,000	34,125	220,000	46,270	360,000	164,107
2009	110,000	76,425	35,000	32,025	220,000	34,910	365,000	143,360
2010 - 2014	590,000	268,508	210,000	118,825	300,000	65,950	1,100,000	453,283
2015 - 2019	405,000	75,350	220,000	36,050	150,000	23,850	775,000	135,250
Total	\$ 1,535,000	797,080	515,000	328,835	1,490,000	371,530	3,540,000	1,497,445

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, during the year, \$10,000 of general obligation bond principal was paid from the Enterprise, Sewer Fund.

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

- (b) Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of \$5,000 to a water reserve account and \$1,000 to a sewer revenue reserve account within the Enterprise Funds shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.
- (d) All funds remaining in the sewer rental account after the payment of all maintenance and operating expenses and required transfers shall be placed in a sewer revenue surplus account within the Enterprise Funds until a minimum of \$100,000 is accumulated. This account is restricted for the purpose of paying for any improvement, extension or repair to the system or for note and interest payments which the other accounts might be unable to make.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$4,121, \$3,872 and \$3,792, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 8,000
Sick leave	<u>14,000</u>
Total	<u>\$ 22,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

(6) Anticipatory Warrants

Anticipatory warrants are warrants which are legally drawn on City funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented for redemption.

The City has issued \$190,000 in anticipatory warrants, at 6.25% interest per annum, for sewer construction. As of June 30, 2004, \$35,000 of those anticipatory warrants had been redeemed, leaving an unpaid balance at June 30, 2004 of \$155,000.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	\$ 95,235
	Local Option Sales Tax	
	Enterprise:	
	Water	27,300
		<u>122,535</u>
Special Revenue:		
Road Use Tax	Special Revenue:	
	Local Option Sales Tax	95,235
		<u>95,235</u>
Total		<u><u>\$ 217,770</u></u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$106,783 during the year ended June 30, 2004.

(9) Industrial Development Revenue Bonds

The City has issued a total of \$13,500,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$12,800,000 is outstanding at June 30, 2004. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

(10) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Deficit Fund Balance

The Capital Projects, Airport Construction Fund had a deficit balance of \$46,540 at June 30, 2004. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of state grants.

(12) Litigation

The City is subject to pending litigation seeking compensatory damages of approximately \$320,000 and punitive damages of approximately \$540,000. The probability of loss, if any, is undeterminable.

(13) Subsequent Events

In August 2004, the City issued \$500,000 of general obligation bonds and entered into construction contracts totaling \$468,520 for a water project. The City also entered into a construction contract for \$186,500 for a street project to be financed from road use tax funds.

(14) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City’s governmental and business type activities. Beginning net assets have been restated to include the allocation of the Internal Service Fund.

	Governmental Activities	Business Type Activities
Cash basis net assets June 30, 2003, as previously reported	\$ 1,679,848	595,856
Internal Service Fund	8,947	7,320
Cash basis net assets July 1, 2003, as restated	\$ 1,688,795	603,176

Required Supplementary Information

Sample Cash City
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 1,034,479	-	-
Tax increment financing collections	95,832	-	-
Other city tax	242,198	-	-
Licenses and permits	16,254	-	-
Use of money and property	113,075	8,261	-
Intergovernmental	495,575	335,000	-
Charges for service	110,417	1,407,058	78,015
Special assessments	62,792	-	-
Miscellaneous	31,296	49,950	3,321
Total receipts	2,201,918	1,800,269	81,336
Disbursements:			
Public safety	396,720	16,932	16,932
Public works	501,987	9,792	9,792
Health and social services	103,739	-	-
Culture and recreation	73,919	2,932	2,932
Community and economic development	15,803	-	-
General government	310,141	13,237	13,237
Debt service	281,258	-	-
Capital projects	125,000	-	-
Business type activities	-	1,722,245	35,197
Total disbursements	1,808,567	1,765,138	78,090
Excess of receipts over disbursements	393,351	35,131	3,246
Other financing sources, net	560,840	722,700	-
Excess of receipts and other financing sources over disbursements and other financing uses	954,191	757,831	3,246
Balances beginning of year	1,679,848	612,123	16,267
Balances end of year	\$ 2,634,039	1,369,954	19,513

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
1,034,479	1,072,000	1,072,000	(37,521)
95,832	90,000	90,000	5,832
242,198	211,000	211,000	31,198
16,254	15,000	15,000	1,254
121,336	115,000	115,000	6,336
830,575	700,000	840,000	(9,425)
1,439,460	1,200,000	1,382,861	56,599
62,792	62,000	62,000	792
77,925	83,000	83,000	(5,075)
3,920,851	3,548,000	3,870,861	49,990
396,720	390,550	475,550	78,830
501,987	525,100	525,100	23,113
103,739	125,000	110,000	6,261
73,919	177,500	118,000	44,081
15,803	60,000	60,000	44,197
310,141	210,000	233,200	(76,941)
281,258	285,000	285,000	3,742
125,000	130,000	130,000	5,000
1,687,048	1,430,000	1,550,000	(137,048)
3,495,615	3,333,150	3,486,850	(8,765)
425,236	214,850	384,011	41,225
1,283,540	515,000	515,000	768,540
1,708,776	729,850	899,011	809,765
2,308,238	2,730,000	2,991,400	(683,162)
4,017,014	3,459,850	3,890,411	126,603

Sample Cash City

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$153,700. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the general government and business type activities functions.

Other Supplementary Information

Sample Cash City

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	CEBA Grant	Employee Benefits	Special Local Option Sales Tax
Receipts:			
Property tax	\$ -	55,048	-
Other city tax	-	1,990	190,470
Use of money and property	-	-	-
Intergovernmental	125,000	-	-
Special assessments	-	-	-
Miscellaneous	-	-	-
Total receipts	125,000	57,038	190,470
Disbursements:			
Operating:			
Public safety	-	27,820	-
Public works	-	12,991	-
Health and social services	-	6,496	-
Culture and recreation	-	1,069	-
General government	-	17,734	-
Debt service	-	-	-
Capital projects	100,000	-	-
Total disbursements	100,000	66,110	-
Excess (deficiency) of receipts over (under) disbursements	25,000	(9,072)	190,470
Other financing uses:			
Operating transfers out	-	-	(190,470)
Net change in cash balances	25,000	(9,072)	-
Cash balances beginning of year	-	32,016	-
Cash balances end of year	\$ 25,000	22,944	-
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 25,000	22,944	-
Capital project fund	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	\$ 25,000	22,944	-

See accompanying independent auditor's report.

Revenue		Capital Projects	Permanent	
Special Assessment Bonds/Notes	Library Building Trust	Airport Construction	Cemetery Perpetual Care	Total
-	-	-	-	55,048
-	-	-	-	192,460
-	2,433	-	-	2,433
-	-	-	-	125,000
59,576	-	-	-	59,576
-	-	-	2,200	2,200
59,576	2,433	-	2,200	436,717
-	-	-	-	27,820
-	-	46,540	-	59,531
-	-	-	-	6,496
-	1,978	-	-	3,047
-	-	-	-	17,734
80,280	-	-	-	80,280
-	-	-	-	100,000
80,280	1,978	46,540	-	294,908
(20,704)	455	(46,540)	2,200	141,809
-	-	-	-	(190,470)
(20,704)	455	(46,540)	2,200	(48,661)
27,208	29,800	-	11,800	100,824
6,504	30,255	(46,540)	14,000	52,163
6,504	30,255	-	-	84,703
-	-	(46,540)	-	(46,540)
-	-	-	14,000	14,000
6,504	30,255	(46,540)	14,000	52,163

Sample Cash City
Schedule of Indebtedness
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Fire station improvement	Jun 1, 1994	3.70%	\$ 150,000
Bridge	Jun 1, 1994	5.50-6.25	100,000
Street improvement	Aug 1, 1994	3.50-3.90	320,000
Sanitary sewer	Sep 1, 1998	4.70-5.50	850,000
Sewer construction	Jul 1, 2003	8.70-9.50	750,000
Total			
Special assessment bonds:			
Street improvement	Apr 1, 2000	9.50%	\$ 110,000
Special assessment notes:			
Street improvement	Nov 1, 1999	6.10-6.40%	\$ 60,000
Urban renewal tax increment financing (TIF) revenue bonds	Dec 23, 2003	7.00%	\$ 515,000
Revenue notes:			
Water	May 1, 1995	4.95-5.15%	\$ 2,800,000
Sewer	Jun 1, 1999	5.30	500,000
Total			
Anticipatory warrants:			
Sewer construction	Varies	6.25%	\$ 190,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
30,000	-	15,000	15,000	555	-
50,000	-	5,000	45,000	2,933	45
180,000	-	10,000	170,000	7,180	325
625,000	-	20,000	605,000	32,135	900
-	750,000	50,000	700,000	68,175	-
\$ 885,000	750,000	100,000	1,535,000	110,978	1,270
30,000	-	30,000	-	10,178	300
30,000	-	30,000	-	10,102	-
-	515,000	-	515,000	15,803	-
1,310,000	-	170,000	1,140,000	74,825	280
370,000	-	20,000	350,000	20,704	370
\$ 1,680,000	-	190,000	1,490,000	95,529	650
190,000	-	35,000	155,000	10,963	-

Sample Cash City
Bond and Note Maturities
June 30, 2004

Year Ending June 30,	General Obligation Bonds					
	Fire Station Improvement		Bridge		Street Improvement	
	Issued Jun 1, 1994		Issued Jun 1, 1994		Issued Aug 1, 1994	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2005	3.70%	\$ 15,000	5.50%	\$ 5,000	3.50%	\$ 10,000
2006		-	5.75	5,000	3.50	15,000
2007		-	5.75	5,000	3.60	15,000
2008		-	5.75	5,000	3.60	15,000
2009		-	6.00	5,000	3.60	15,000
2010		-	6.00	5,000	3.70	20,000
2011		-	6.00	5,000	3.70	20,000
2012		-	6.25	5,000	3.80	20,000
2013		-	6.25	5,000	3.80	20,000
2014		-		-	3.90	20,000
2015		-		-		-
2016		-		-		-
2017		-		-		-
2018		-		-		-
Total		<u>\$ 15,000</u>		<u>\$ 45,000</u>		<u>\$ 170,000</u>

Year Ending June 30,	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Revenue Notes					
			Water		Sewer			
	Issued Dec 23, 2003		Issued May 1, 1995		Issued Jun 1, 1999			
	Interest		Interest		Interest			
	Rates	Amount	Rates	Amount	Rates	Amount	Total	
2005	7.00%	\$ -	4.95%	\$ 170,000	5.30%	\$ 20,000	190,000	
2006	7.00	-	5.05	180,000	5.30	20,000	200,000	
2007	7.00	20,000	5.05	190,000	5.30	20,000	210,000	
2008	7.00	30,000	5.15	200,000	5.30	20,000	220,000	
2009	7.00	35,000	5.15	200,000	5.30	20,000	220,000	
2010	7.00	40,000	5.15	200,000	5.30	20,000	220,000	
2011	7.00	40,000		-	5.30	20,000	20,000	
2012	7.00	40,000		-	5.30	20,000	20,000	
2013	7.00	40,000		-	5.30	20,000	20,000	
2014	7.00	50,000		-	5.30	20,000	20,000	
2015	7.00	50,000		-	5.30	30,000	30,000	
2016	7.00	50,000		-	5.30	30,000	30,000	
2017	7.00	60,000		-	5.30	30,000	30,000	
2018	7.00	60,000		-	5.30	30,000	30,000	
2019		-		-	5.30	30,000	30,000	
Total		\$ 515,000		\$ 1,140,000		\$ 350,000	1,490,000	

See accompanying independent auditor's report.

Sanitary Sewer			Sewer Construction		
Issued Sep 1, 1998			Issued Jul 1, 2003		
Interest			Interest		
Rates		Amount	Rates		Amount
4.70%	\$	30,000	8.70%	\$	50,000
4.70		30,000	8.70		50,000
4.90		40,000	9.00		50,000
4.90		40,000	9.00		50,000
4.90		40,000	9.00		50,000
5.15		40,000	9.00		50,000
5.15		40,000	9.00		50,000
5.25		40,000	9.25		50,000
5.25		50,000	9.25		50,000
5.25		50,000	9.25		50,000
5.25		50,000	9.25		50,000
5.25		50,000	9.25		50,000
5.50		50,000	9.50		50,000
5.50		55,000	9.50		50,000
	\$	605,000		\$	700,000
					1,535,000

Schedule 4

Sample Cash City

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Four Years

	2004	2003	2002	2001
Receipts:				
Property tax	\$ 1,034,479	1,005,582	979,896	963,609
Tax increment financing collections	95,832	81,320	82,600	40,310
Other city tax	242,198	235,418	229,404	225,591
Licenses and permits	16,254	15,982	15,910	15,811
Use of money and property	113,075	94,280	100,101	98,212
Intergovernmental	495,575	412,310	469,812	448,100
Charges for service	110,417	97,300	107,300	106,819
Special assessments	62,792	63,411	64,250	61,310
Miscellaneous	31,296	20,517	38,595	15,911
Total	<u>\$ 2,201,918</u>	<u>2,026,120</u>	<u>2,087,868</u>	<u>1,975,673</u>
Disbursements:				
Operating:				
Public safety	\$ 396,720	380,300	372,444	372,444
Public works	501,987	500,616	502,640	502,640
Health and social services	103,739	97,311	98,128	98,128
Culture and recreation	73,919	75,244	71,311	71,311
Community and economic development	15,803	11,829	11,914	11,914
General government	310,141	298,411	292,498	292,498
Debt service	281,258	247,200	246,500	246,500
Capital projects	125,000	108,500	99,980	99,980
Total	<u>\$ 1,808,567</u>	<u>1,719,411</u>	<u>1,719,411</u>	<u>1,695,415</u>

See accompanying independent auditor's report.

Sample Cash City
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban			
Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program	14.228	04-CD-000	\$ 535,000
Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency			
Management Division:			
Public Assistance Grants	97.036	FEMA-0999-DRIA	20,000
Total			<u>\$ 555,000</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Sample Cash City and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Sample Cash City



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the Sample Cash City, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 20, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Sample Cash City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items IV-A-04, IV-G-04 and IV-H-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sample Cash City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Sample Cash City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-04 and II-C-04 are material weaknesses. Prior year reportable conditions have been resolved except for items II-A-04, II-C-04 and II-D-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Sample Cash City and other parties to whom the Sample Cash City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Sample Cash City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 20, 2004

DAVID A. VAUDT, CPA
Auditor of State

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance**

Sample Cash City



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the Sample Cash City, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. Sample Cash City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Sample Cash City's management. Our responsibility is to express an opinion on the Sample Cash City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Sample Cash City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Sample Cash City's compliance with those requirements.

In our opinion, the Sample Cash City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of non-compliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of the Sample Cash City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Sample Cash City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Sample Cash City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-B-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-B-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Sample Cash City and other parties to whom the Sample Cash City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

September 20, 2004

DAVID A. VAUDT, CPA
Auditor of State

Sample Cash City
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 14.228 – Community Development Block Grants/State's Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The Sample Cash City did not qualify as a low-risk auditee.

Sample Cash City
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- II-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-04 Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. Additionally, supporting documentation was not always available to support credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – We presently have unwritten guidelines. However, we have not established a formal written policy detailing specifics on the use of City credit cards. We will review procedures and guidelines and establish a written policy.

Conclusion – Response accepted.

- II-C-04 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits.

Sample Cash City

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – These procedures have been implemented as recommended.

Conclusion – Response accepted.

- II-D-04 Police Department Collections – The police department collects fines and fees, periodically remitting collections to the City Clerk for deposit. Documentation supporting these collections was inadequate to determine the amounts which should have been collected and remitted to the City for deposit.

Recommendation – To strengthen the control over the accountability of receipts generated by police department activities, the City should require all collections be made at the Clerk's office, thereby segregating the collection procedures from the control over original source documents. A further measure of control may be implemented by requiring an authorized independent person to verify collections with the original source documents on a periodic, unscheduled basis.

Response – We have completed a study of procedures and have made drastic changes in documents supporting charges and have required that fees be collected at the City Clerk's office.

Conclusion – Response accepted.

Sample Cash City
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

**CFDA Number 97.036: Public Assistance Grants.
Pass-through Agency Number: FEMA-0999-DRIA
Federal Award Year: 2004
Department of Homeland Security
Passed through the Iowa Department of Public Defense**

III-A-04 Undocumented Costs – Supporting documentation was not available to substantiate \$11,279 of labor and equipment costs.

Recommendation – The City should implement procedures to ensure supporting documentation is retained. In addition, the City should review labor and equipment costs and reconcile to employee time records and invoices to ensure the accuracy of the final P.4 report.

Response – We will review and reconcile the daily activity summary reports and the employee time records for the completed work to date. We have also instituted additional employee time record keeping measures to facilitate this activity in the future.

Conclusion – Response accepted.

REPORTABLE CONDITION:

**CFDA Number 14.228: Community Development Block Grants/State's Program
Pass-through Agency Number: 04-CD-000
Federal Award Year: 2004
Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development**

III-B-04 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-04.

Sample Cash City
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part IV: Other Findings Related to Statutory Reporting:

IV-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

IV-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the general government and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

IV-C-04 Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to		Purpose	Amount
Anywhere Flower Shop	Flower arrangements for gifts		\$ 332
Anywhere Quick Shop	Pop and food for City employees		239

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

IV-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

Sample Cash City

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

- IV-E-04 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Rosemary Jones, Mayor, Owner of Jones Construction	Construction, per bid	\$ 105,052
Kevin Linden, Council Member, Owner of Linden Welding	Repair and welding	1,295
J. J. Silver, Public Works Director, Part-owner of J. J.'s Hardware	Parts and supplies	436

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Member and Public Works Director do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year. The transaction with the Mayor does not appear to represent a conflict of interest since it was entered into through competitive bidding.

- IV-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- IV-G-04 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The Council went into closed session on May 19, 2004. However, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa and should publish minutes and annual individual salaries as required.

Response – We will comply with the Code requirements for closed sessions. We will publish minutes and salaries as required.

Conclusion – Response accepted.

Sample Cash City

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

- IV-H-04 Deposits and Investments – The City had a certificate of deposit that was held in a depository outside the state. However, Chapter 12C of the Code of Iowa requires that city deposits be held in depositories located in the county in which the City is located or in an adjoining county, but if there is no depository in the county in which the city is located or in an adjoining county then in any other depository located in this state which shall be selected as a depository by the city council.

Recommendation – The City should only deposit funds in allowable depositories.

Response – We will review and revise our policies and deposit only in allowable depositories.

Conclusion – Response accepted.

- IV-I-04 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

- IV-J-04 Payment of General Obligation Bonds – Certain general obligation bonds were paid from the Enterprise Fund, Sewer Account. Chapter 384.4 of the Code of Iowa states in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the Debt Service Fund.”

Recommendation – The City should transfer from the Enterprise Fund, Sewer Account to the Debt Service Fund, General Obligation Bonds Account for future funding contributions. Payments of the bonds should then be disbursed from the Debt Service Fund.

Response – We will transfer in the future as recommended.

Conclusion – Response accepted.

- IV-K-04 Economic Development – The City paid \$5,000 to the Anywhere Development Committee which may not be an appropriate expenditure of public funds.

In accordance with Chapter 15A of the Code of Iowa and an Attorney General’s opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.

Recommendation – The Council should evaluate and document the public purpose served by the expenditure before authorizing further payments and should require the Development Committee to provide documentation of how the funds were used to accomplish economic development activities.

Response – We will do this.

Conclusion – Response accepted.

Sample Cash City

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

- IV-L-04 Notice of Public Hearing for Public Improvements – The City did not publish a notice of public hearing and bid letting on the Main Street sewer project as required by Chapters 384.102 and 362.3 of the Code of Iowa.

Recommendation – Before entering into any contract for public improvements where the cost is \$25,000 or more, the Council should set a date for a public hearing and give notice at least four but not more than twenty days prior to the hearing as provided in Chapter 362.3 of the Code of Iowa.

Response – We will publish the appropriate notices in the future as required.

Conclusion – Response accepted.

- IV-M-04 Sales Tax – Sales tax on sewer services provided to non-residential commercial operations was not uniformly assessed.

Recommendation – The City should uniformly assess sales tax on sewer services provided to non-residential commercial operations in accordance with section 701-26.72 of the Iowa Department of Revenue Administrative Rules and Regulations.

Response – This will be corrected.

Conclusion – Response accepted.

- IV-N-04 Financial Condition – The Capital Projects, Airport Construction Fund had a deficit balance at June 30, 2004 of \$46,540.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The deficit was due to construction costs incurred prior to receipt of a state grant. The deficit was subsequently eliminated.

Conclusion – Response accepted.

Sample Cash City

Staff

This audit was performed by:

Jerome Warning, CPA, Manager
Janice Brinkley, CPA, Senior Auditor
Stanley Hood, CPA, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State